

ACCOUNTING POLICY

TOPIC: Section 1--Business Standards 7.0	EFFECTIVE DATE: 6/30/94
TITLE: Standards for Collecting Receivables	REVISION DATE: 1/10/03
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**BACKGROUND**

The management of accounts receivable is an essential component of financial management and good business practice. Generally accepted accounting principles, internal control standards and Department of Administration regulations establish the framework for an organization's accounts receivable system. Accounts receivable are a significant part of the State of Wisconsin financial statements and will be audited by the Legislative Audit Bureau.

**POLICY**

The Division/Institution Management Director ("organization") is responsible for establishing an accounts receivable system within the organization to assure that all charges are billed promptly, recorded accurately on the fiscal system, and adequate collection efforts are made in accordance with the following standards. Any write-off recommendations must be made in accordance with **Section 3--Receivables 2.0** (Collection and Write-off of Accounts Receivable). The following checklist is provided for each responsible organization in DHFS to review and implement procedures that assure compliance in each area.

**STANDARDS**

1. Accuracy of Information

Each organization (a) should have an accurate count of who owes the agency what amount of funds, and (b) the subsidiary ledger of accounts receivable should be updated on a timely basis.

2. Policies and Procedures

Each organization should have written collections policies and procedures which:

- a. Comply with applicable federal and state requirements;
- b. Are clear and understandable to all relevant parties; and

c. Are likely to promote efficient and effective collections.

3. Compliance to Policies and Procedures

Each organization should document that (a) policies and procedures are routinely followed, and (b) departures from established policies and procedures are infrequent and can be adequately explained according to unanticipated, unique circumstances.

4. Collections Priorities

Each organization should demonstrate that it has reasonable collections priorities. In the event that resource limitations prevent exhaustive pursuit of every account, the organization should establish and consistently follow reasonable collection priorities.

5. Timely Actions

Each organization should have timeliness standards for action at each step of the collection process which are reasonable and which are followed.

6. Defining and Measuring Success

Each organization should have established "benchmarks for success," or critical measures that the agency carefully tracks to monitor its success in accurately establishing and collecting accounts receivables. (e.g., percent of accounts meeting timeliness standards; trends in amounts collected as a percent of total outstanding; average time taken to fully collect from accounts; amount collected per dollars spent by the organization to collect from accounts; etc.)

7. Self-Improvement

Each organization should demonstrate that it routinely reviews these measures (and other relevant information, such as information on collection activities in use or being experimented with by other agencies) to identify areas where improvements could be made.

8. Prevention

Each organization should review patterns in the number, type, and causes of receivables as a means of identifying areas where the organization might pursue initiatives to prevent over-payments to begin with.

9. Contract Monitoring

If the organization contracts for collections services, it should (a) clearly articulate enforceable standards of performance the contractor is expected to achieve; (b) monitor whether contractor performance is satisfactory; and (c) act appropriately according to the results of its monitoring efforts.

10. Writing Off Receivables

Each organization should write off receivables **only after fully documenting** that: (a) rigorous collection efforts were pursued; (b) all activities were consistent with established policies and procedures; and (c) it is unlikely that the benefits to be gained from continued pursuit of the account will meet or exceed the costs of additional collections efforts.

11. Accounts Receivable Reports

The organization should demonstrate that it maintains effective and timely reports and communications with all parties that the organization needs to work with in order to achieve its objectives.

**REFERENCE**

DHFS APP **Section 4--Receivables 2.0** (Collection and Write-Off of Accounts Receivable)

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